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Financial Results for the Fiscal Year Ended December 31, 2020 [Japanese GAAP]

Company name:	Neural Pocket Inc.
Stock exchange listing:	Tokyo
Code:	4056
URL:	https://www.neuralpocket.com/en/index.html
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Scheduled date of ordinary general meeting of shareholders:	March 30, 2021
Schedule date of filing annual securities report:	March 31, 2021
Schedule date to commence dividend payment:	—
Preparation of supplementary materials on financial results:	Yes
Schedule of annual financial result briefing session:	Yes (for institutional investors and analysts)

1. Financial results for the fiscal year ended December 31, 2020 (January 1, 2020 - December 31, 2020)

(1) Operating results

(% denotes year-to-year increase/decrease rate)

	Net sales		Operating profit		Ordinary profit		Net profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended								
December 31, 2020	762	144.9	170	-	148	-	147	-
December 31, 2019	311	417.4	(133)	-	(139)	-	(139)	-

	Net profit per share	Diluted net profit per share	Return on shareholders' equity	Ordinary profit to total assets	Operating profit to net sales
	Yen	Yen	%	%	%
Fiscal year ended					
December 31, 2020	10.85	10.12	16.1	10.0	22.4
December 31, 2019	10.59	-	(35.6)	(20.2)	(42.7)

Notes

The Company conducted a 1000-for-1 stock split of common stocks as of April 15, 2020, by the resolution of the Board of Directors meeting on March 27, 2020. The "net profit per share" and "diluted net profit per share" are calculated assuming that the said stock split was conducted at the beginning of the previous fiscal year.

(2) Financial condition

	Total assets	Net assets	Equity capital ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
December 31, 2020	1,920	1,206	62.8	86.09
December 31, 2019	1,056	625	59.2	(30.85)

Reference Equity capital As of December 31, 2019 1,206 million yen As of December 31, 2019 625million yen

(Notes)

The Company conducted a 1000-for-1 stock split of common stocks as of April 15, 2020, by the resolution of the Board of Directors meeting on March 27, 2020. The "net profit per share" and "diluted net profit per share" are calculated assuming that the said stock split was conducted at the beginning of the previous fiscal year.

(3) Cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of period
Fiscal year ended	Millions of yen	Millions of yen	Millions of yen	Yen
December 31, 2020	138	(142)	603	1,424
December 31, 2019	(198)	(46)	860	825

2. Dividend situation

	Annual dividends					Total dividends	Payout ratio	Dividends to net assets
	1Q	2Q	3Q	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal year ended December 31, 2019	-	0.00	-	0.00	0.00	-	-	-
December 31, 2020	-	0.00	-	0.00	0.00	-	-	-
Fiscal year ending December 31, 2021 (expected)	-	0.00	-	0.00	0.00		-	

3. Financial results forecast for the Fiscal Year Ending December 31, 2021 (January 1, 2021 - December 31, 2021)

(% denotes year-to-year increase/decrease rate)

	Net sales		Operating profit		Ordinary profit		Net profit		Net profit per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full term	1,256	64.7	380	122.5	370	149.5	280	90.0	19.98

* Notes

(1) Application of specific accounting treatment in preparation of annual financial statements : None

(2) Accounting policy changes, accounting-based estimate changes, revision-based restatements

1. Accounting policy changes due to revision of accounting standards : None
2. Accounting policy changes other than (1) above : None
3. Changes in accounting-based estimates : None
4. Revision-based restatements : None

(3) Total number of issued shares (common shares)

1. Total number of issued shares at the end of the period (including treasury shares)

As of December 31, 2020:	14,013,200 shares
As of December 31, 2019:	13,369,000 shares

2. Total number of treasury shares at end of the period

As of December 31, 2020:	32 shares
As of December 31, 2019:	- shares

3. Average number of shares during the period

Fiscal year ended December 31, 2020:	13,587,639 shares
Fiscal year ended December 31, 2019:	13,159,805 shares

(Notes)

The Company conducted a 1000-for-1 stock split of common stocks as of April 15, 2020, by the resolution of the Board of Directors meeting on March 27, 2020. The "total number of issued shares", "total number of treasury shares" and "average number of shares" are calculated assuming that the said stock split was conducted at the beginning of the previous fiscal year.

* Financial results reports are exempt from audit conducted by certified public accountants or audit firms.

* Proper use of financial results forecasts, and other special matters

(Note to forecasts on the results of operations and other items)

Forward-looking statements, including the forecasts stated in these materials, are estimated based on the information that the Company is able to obtain at the present point in time and assumptions which are deemed to be reasonable. However, actual results may be different due to various factors.

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1. Qualitative information regarding results for the period

(1) Explanation of operating results

Our company's mission is "Update the world for a better tomorrow". We have been expanding our business domain by finding potential markets where artificial intelligence (AI) has not yet been utilized and creating services since our founding in 2018.

As the tide of digital transformation accelerates and various fields become more digitalized, we are responding to the new forms of society and changes in the way people work by expanding services such as "human flow and crime prevention", "parking space and mobility", "3D city maps", "signage advertising", "work-from-home solution" and "fashion trend analysis", and have provided a variety of services that make us a smart city to client companies, local governments, and official public office.

We will invest more intensively than ever in our ability to build businesses that will continuously generate new businesses while responding to rapid changes in social conditions, and in strengthening our AI engineering capabilities to immediately implement them.

As a result of the above, net sales for the current fiscal year were 762,789 thousand yen, operating profit was 170,818 thousand yen, ordinary profit was 148,307 thousand yen, and net profit was 147,358 thousand yen.

As the Company's business segment is the single segment of AI engineering business, the description by segment is omitted.

For more detailed financial results, please refer to the "Financial Results Briefing Material FY2020 (ended Dec 31, 2020)" released on February 12, 2021 from our IR website.

Reference URL: <https://www.neuralpocket.com/ir/library/>

(2) Explanation of financial position

Assets

Current assets at the end of the current fiscal year were 1,673,388 thousand yen, an increase of 753,530 thousand yen compared to the end of the previous fiscal year. This was mainly due to an increase of 599,033 thousand yen in cash and deposits as a result of an increase in short-term borrowing and capital increase through public offering, and an increase of 108,160 thousand yen in notes and accounts receivable-trade due to an increase in net sales. As a result, total assets amounted to 1,920,995 thousand yen, an increase of 864,066 thousand yen from the end of the previous fiscal year.

Liabilities

Current liabilities at the end of the current fiscal year totaled 603,136 thousand yen, an increase of 286,888 thousand yen over the end of the previous fiscal year. This was mainly due to an increase of 190,000 thousand yen in short-term borrowing. As a result, total liabilities amounted to 714,536 thousand yen, an increase of 283,468 thousand yen from the end of the previous fiscal year.

Net assets section

Total net assets at the end of the current fiscal year were 1,206,458 thousand yen, an increase of 580,597 thousand yen from the end of the previous fiscal year. This was mainly due to an increase in retained earnings and capital increase through public offering.

(3) Explanation of cash flows for the current fiscal year

The balance of cash and cash equivalents (hereinafter referred to as "cash") for the current fiscal year increased by 599,033 thousand yen from the end of the previous fiscal year to 1,424,812 thousand yen.

Net cash provided by (used in) operating activities

Net cash provided by operating activities in the current fiscal year amounted to 138,418 thousand yen. The main factors were profit before income taxes of 148,307 thousand yen and an increase in trade-receivable of 108,160 thousand yen.

Net cash provided by (used in) investing activities

As a result of investment activities in the current fiscal year, funds used totaled 142,441 thousand yen. The main outflows

were 43,165 thousand yen for the purchase of property, plant and equipment and 98,358 thousand yen for the purchase of intangible assets.

Net cash provided by (used in) financing activities

Net cash provided by financing activities in the current fiscal year amounted to 603,056 thousand yen. This was due to proceeds from issuance of shares of 428,335 thousand yen and a net increase in short-term borrowing of 190,000 thousand yen.

(4) Outlook for the future

For the fiscal year ending December 31, 2021, although there is a high level of uncertainty about future business conditions due to the expansion of the COVID-19 infection, we assume that the impact to our business can be handled by balancing the different characteristics of the six services. We expect demand for services that support the new social environment, such as the acceleration of digital transformation, and we will continue to flexibly respond to such market changes and promote our business activities.

Based on this outlook for the business environment, we are forecasting net sales of 1,256,000 thousand yen, operating profit of 380,000 thousand yen, ordinary profit of 370,000 thousand yen, and net profit of 280,000 thousand yen for the fiscal year ending December 2021.

2. Basic approach to the selection of accounting standards

In order to ensure comparability of financial statements from period to period and from company to company, the Company has adopted Japanese GAAP for accounting standards.

2. Financial statements and principal notes

(1) Balance sheet

(Thousands of yen)

	As of December 31, 2019	As of December 31, 2020
Assets		
Current Assets		
Cash and deposits	825,778	1,424,812
Accounts receivable - trade	84,150	192,310
Merchandise	-	37,763
Work in process	-	1,639
Advance payments - trade	-	1,868
Advance payments - other	9,929	14,451
Others	-	542
Total current assets	919,858	1,673,388
Non-current assets		
Property, plant and equipment		
Buildings	20,668	36,711
Tools, furniture and fixtures	14,694	45,684
Accumulated depreciation	(3,686)	(11,381)
Total property, plant and equipment	31,676	71,014
Intangible assets		
Software	16,712	88,018
Software in process	17,788	17,711
Total intangible assets	34,500	105,729
Investments and other assets		
Leasehold and guarantee deposits	70,892	70,861
Total investments and other assets	70,892	70,861
Total non-current assets	137,070	247,606
Total assets	1,056,928	1,920,995
Liabilities		
Current liabilities		
Account payable-trade	-	67,169
Short-term borrowing	260,000	450,000
Current portion of long-term borrowings	3,420	3,420
Accounts payable - other	26,302	31,110
Accrued expenses	21,063	10,079
Income taxes payable	290	948
Advances received	-	660
Deposits received	3,681	6,268
Other	1,490	33,479
Total current liabilities	316,247	603,136
Non-current liabilities		
Long-term borrowings	114,820	111,400
Total non-current borrowings	114,820	111,400
Total liabilities	431,067	714,536

(Thousands of yen)

	As of December 31, 2019	As of December 31, 2020
Net assets		
Shareholders' equity		
Share capital	100,000	18,547
Capital surplus		
Legal capital surplus	471,437	688,135
Other capital surplus	376,437	674,588
Total capital surplus	847,875	1,362,723
Retained earnings		
Other retained earnings		
Retained earnings brought forward	(322,014)	(174,656)
Total retained earnings	(322,014)	(174,656)
Treasury shares	-	(156)
Total shareholders' equity	625,860	1,206,458
Total net assets	625,860	1,206,458
Total liabilities and net assets	1,056,928	1,920,995

(2) Statement of income

(Thousands of yen)

	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2020
Net sales	311,491	762,789
Cost of sales	90,846	92,805
Gross profit	220,644	669,983
Selling, general and administrative expenses	353,687	499,165
Operating profit	(133,042)	170,818
Non-operating income		
Interest income	4	7
Subsidy income	754	375
Miscellaneous income	176	54
Total non-operating income	935	437
Non-operating expenses		
Interest expenses	2,011	6,117
Foreign exchange losses	-	67
Share issuance costs	4,582	5,060
Going public expenses	-	11,702
Other	403	-
Total non-operating expenses	6,996	22,948
Ordinary profit	(139,103)	148,307
Profit before income taxes	(139,103)	148,307
Income taxes-current	290	948
Total income taxes	290	948
Net profit	(139,393)	147,358

(3) Statement of changes in equity

Fiscal year ended December 31, 2019 (January 1, 2019 - December 31, 2019)

(Thousands of yen)

	Shareholders' equity			
	Share Capital	Capital surplus		
		Legal capital surplus	Other capital surplus	Total capital surplus
Balance at beginning of period	100,000	167,981	72,981	240,963
Changes during period				
Issuance of new shares	303,455	303,455		303,455
Exercise of stock acquisition right				-
Purchase of treasury shares				-
Profit (loss) during the period				-
Capital reduction	(303,455)		303,455	303,455
Total changes of items during period	-	303,455	303,455	606,911
Balance at end of period	100,000	471,437	376,437	847,875

	Shareholders' equity				Total net assets
	Retained earnings		Treasury shares	Total shareholders' equity	
	Other retained earnings	Total retained earnings			
Retained earnings brought forward					
Balance at beginning of period	(182,620)	(182,620)	-	158,342	158,342
Changes during period					
Issuance of new shares		-		606,911	606,911
Exercise of stock acquisition right		-		-	-
Purchase of treasury shares		-		-	-
Profit (loss) during the period	(139,393)	(139,393)		(139,393)	(139,393)
Capital reduction		-		-	-
Total changes of items during period	(139,393)	(139,393)	-	467,517	467,517
Balance at end of period	(322,014)	(322,014)	-	625,860	625,860

Fiscal year ended December 31, 2020 (January 1, 2020 - December 31, 2020)

(Thousands of yen)

	Shareholders' equity			
	Share Capital	Share Capital		
		Legal capital surplus	Other capital surplus	Total capital surplus
Balance at beginning of period	100,000	471,437	376,437	847,875
Changes during period				
Issuance of new shares	205,840	205,840	-	205,840
Exercise of stock acquisition right	10,857	10,857		10,857
Purchase of treasury shares				-
Profit (loss) during the period	-	-	-	-
Capital reduction	(298,150)	-	298,150	298,150
Total changes of items during period	(81,453)	216,697	298,150	514,848
Balance at end of period	18,547	688,135	674,588	1,362,723

	Shareholders' equity				Total net assets
	Retained earnings		Treasury shares	Total shareholders' equity	
	Other retained earnings	Total retained earnings			
	Retained earnings brought forward				
Balance at beginning of period	(322,014)	(322,014)	-	625,860	625,860
Changes during period					
Issuance of new shares	-	-		411,681	411,681
Exercise of stock acquisition right		-		21,714	21,714
Purchase of treasury shares		-	(156)	(156)	(156)
Profit (loss) during the period	147,358	147,358		147,358	147,358
Capital reduction	-	-		-	-
Total changes of items during period	147,358	147,358	(156)	580,597	580,597
Balance at end of period	(174,656)	(174,656)	(156)	1,206,458	1,206,458

(4) Statement of cash flows

(Thousands of yen)

	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2020
Cash flows from operating activities		
Profit before income taxes	(139,103)	148,307
Depreciation	5,096	30,985
Interest income	(4)	(7)
Interest expenses	2,011	6,117
Share issuance costs	4,582	5,060
Going public expenses	—	11,702
Decrease (increase) in trade receivables	(84,150)	(108,160)
Decrease (increase) in inventories	—	(39,402)
Decrease (increase) in prepaid expenses	(6,853)	(3,853)
Increase (decrease) in trade payables	—	67,169
Increase (decrease) in accounts payable – other	(547)	5,098
Increase (decrease) in accrued liabilities	6,512	(11,297)
Increase (decrease) in deposits received	1,142	2,587
Increase (decrease) in advances received	(1,791)	660
Other-net	16,816	30,526
Subtotal	(196,290)	145,493
Interest received	4	7
Interest paid	(2,196)	(6,792)
Income taxes paid	(265)	(290)
Net cash provided by (used in) operating activities	(198,747)	138,418
Cash flows from investing activities		
Purchase of property, plant and equipment	(16,918)	(43,165)
Purchase of intangible assets	(29,935)	(98,358)
Payments of leasehold and guarantee deposits	—	(917)
Proceeds from refund of leasehold and guarantee deposits	360	—
Net cash provided by (used in) investing activities	(46,493)	(142,441)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	260,000	190,000
Repayments of long-term borrowings	(1,760)	(3,420)
Proceeds from issuance of shares	602,328	428,335
Purchase of treasury shares	—	(156)
Payment for listing related expenses	—	(11,702)
Net cash provided by (used in) financing activities	860,568	603,056
Net increase (decrease) in cash and cash equivalents	615,327	599,033
Cash and cash equivalents at the beginning of period	210,451	825,778
Cash and cash equivalents at the end of period	825,778	1,424,812

(5) Notes to the financial statements

(Note on going concern assumptions)

Not applicable

(Segment information)

As the Company's business segment is the single segment of AI engineering business, segment information is omitted.

(Per share information)

	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2020
Net asset per share	(30.85)Yen	86.09Yen
Net profit (loss) per share	(10.59)Yen	10.85Yen
Diluted net profit per share	-	10.12Yen

(Notes)

1. The Company conducted a 1000-for-1 stock split of common stocks as of April 15, 2020, by the resolution of the Board of Directors meeting on March 27, 2020. The "net asset per share" and "net profit (loss) per share" are calculated assuming that the said stock split was conducted at the beginning of the previous fiscal year.
2. Net assets per share is calculated by deducting the amount of residual assets to be distributed to preferred stock shareholders and the Company posted a net loss per share.
3. Diluted net profit per share for the previous fiscal year is not shown because the Company's shares are unlisted and the average share price during the period cannot be determined, and the Company posted a net loss per share, although dilutive shares exist.
4. Since the Company has been newly listed on the Mothers market of the Tokyo Stock Exchange since August 20, 2020, the diluted net profit per share for the current fiscal year is calculated by deeming the average share price from the date of initial listing to the end of the current fiscal year as the average share price during the period.
5. The basis for calculating net profit (loss) per share is as follows,

	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2020
Net profit (loss) per share (yen)		
Net profit (loss) (thousand yen)	(139,393)	147,358
Amount not attributable to common stock shareholders (thousand yen)	-	-
Net profit (loss) related to common stock (thousand yen)	(139,393)	147,358
Average number of shares during the period (shares)	13,159,805	13,587,639
(Number of common stock(shares))	10,461,030	-
(Number of Class A1 preferred shares (shares))	1,142,268	-
(Number of Class A2 preferred stock (shares))	553,701	-
(Number of Class B preferred shares (shares))	1,002,805	-
Outline of latent shares not included in the calculation of diluted net profit per share due to lack of dilutive effect	Seven types of stock acquisition rights (number of stock acquisition rights: 988)	-

(Significant events after reporting period)

Not applicable.